

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

| <p>Applicant: Advent Group Ministries (Advent) 90 Great Oak Blvd. #108 San Jose, CA 95119 Santa Clara County</p> | <p>Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: August 26, 2004 Resolution Number: HII-171</p> | | | | | | | | | | | | | | | | | | | | | |
|---|---|--|------------------|--|------------------------------------|--------------|-----------|-------------------------|-----------|---------------|----------------|-------------------|--------|----------------------|--------|-----------------|-------------------------|---------------|------------------|---------------|--------------------|-------------|
| <p>Project Site: 1200 W. Edmundson Avenue, Morgan Hill, CA 95037 Facility Type: Group Home For Children</p> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Policy Exception: Under the HELP II Loan Program guidelines, a debt service coverage ratio of 1.25% is required. Staff recommends approval of an exception to this guideline, since this loan will insured by Cal-Mortgage.</p> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Use of Loan Proceeds: Loan proceeds will be used to refinance the STARTS 1992 Series A bonds which will result in a yearly savings of approximately \$15,000 in interest.</p> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Type of Issue: HELP II Loan Prior HELP II Borrower: No, however, Advent is a borrower under the Authority's STARTS 1992A Bonds Credit Enhancement: Cal Mortgage Insurance</p> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: Advent has posted operating losses during two of the last three fiscal years. However, management recently implemented a strategic business plan to help offset these losses and interim operating results appear to have improved slightly. Advent's liquidity and debt to net assets ratio are adequate. Given Advent's operating losses, its debt service coverage ratio is poor, however, using improving interim operating results indicates a proforma debt service coverage of 2.03x.</p> | | | | | | | | | | | | | | | | | | | | | | |
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| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | | | | | | | | | | | | | | | | | | | |
| HELP II loan | \$400,000 | Refinance real property | \$843,836 | | | | | | | | | | | | | | | | | | | |
| Private loans | <u>463,752</u> | Cal Mortgage fees | 14,916 | | | | | | | | | | | | | | | | | | | |
| | | Financing costs | <u>5,000</u> | | | | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$863,752</u> | Total Uses | <u>\$863,752</u> | | | | | | | | | | | | | | | | | | | |
| <p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Advent Group Ministries, subject to a final Cal-Mortgage commitment, securing other financing, and the standard HELP II loan provisions.</p> | | | | | | | | | | | | | | | | | | | | | | |

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

August 26, 2004

Advent Group Ministries (Advent)
Resolution Number: HII-171

Policy Exception: Under the HELP II Loan Program guidelines, a debt service ratio of 1.25% is required. Staff recommends an exception to this guideline, **since this loan is fully insured by Cal-Mortgage.**

I. PURPOSE OF FINANCING: Loan proceeds would be used, in conjunction with private financing, to refinance Advent’s proportionate share of the STARTS 1992 Series A bonds. With this refinancing the savings would be approximately \$15,000 a year or approximately \$240,000 over the life of the loan.

Refinancing 1992 STARTS A Bonds **\$843,836**

Advent has the opportunity to reduce operating costs by taking advantage of the lower rates offered by the HELP II Loan program. The current STARTS 1992 A Bonds have an interest rate of 7.25% compared to the 3% offered by HELP II. The proposed refinancing will result in approximately \$15,000 annual savings in interest costs.

Advent has also secured two private loans totaling approximately \$463,000 at a 7% fixed rate. One loan will be for six years and the other loan will be for 15 years. The monthly payment on these loans will be approximately \$4,000. These loans will be secured by a different piece of property.

The property securing the HELP II loan was appraised in June 2004 at \$1.08 million, leading to a loan to value ratio of 37% and a combined loan (all loans) to value ratio of 80%. The HELP II loan will be secured by a second lien on the property and Cal-Mortgage will be providing insurance on the loan.

Cal Mortgage Insurance Fees **14,916**

Financing Costs (Authority loan fee of 1.25%) **5,000**

Total **\$863,752**

Financing structure:

HELP II Loan

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,147).
- Total interest payments of approximately \$97,218.
- ^{2nd} lien position on 1200 W. Edmundson Avenue, Morgan Hill, CA 95037
- ^{2nd} lien position on corporate gross revenues.

II. FINANCIAL STATEMENTS AND ANALYSIS:

ADVENT GROUP MINISTRIES

Consolidated Statements of Operations

| | Six months ended June 30, <u>2004</u> (Unaudited) | For the Year Ended December 31, | | |
|---|--|---------------------------------|---------------------|---------------------|
| | | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| Revenues: | | | | |
| Support from governmental agencies | \$ 1,295,900 | \$ 2,582,390 | \$ 2,548,302 | \$ 2,613,697 |
| Public contributions | 117,996 | 300,401 | 263,275 | 231,536 |
| Program service fees | 69,162 | 47,983 | 31,893 | 42,256 |
| Investment return | 5,520 | 20,886 | (39,505) | 11,587 |
| Special Events | 117,605 | 103,944 | 91,085 | 77,100 |
| Miscellaneous | 3,671 | 30 | 19,635 | 19,999 |
| TOTAL UNRESTRICTED SUPPORT AND REVENUE | 1,609,854 | 3,055,634 | 2,914,685 | 2,996,175 |
| Expenses: | | | | |
| Salaries and benefits | 975,537 | 2,041,059 | 1,925,567 | 1,777,120 |
| Advertising | 6,300 | 7,936 | 14,602 | 19,859 |
| Bad Debt | - | 688 | 20,000 | - |
| Child Support | 196,295 | 438,455 | 357,731 | 402,140 |
| Depreciation and amortization | 28,558 | 61,789 | 69,400 | 76,489 |
| Equipment and maintenance | 46,692 | 46,993 | 85,509 | 24,362 |
| Fundraising | 18,932 | 17,504 | - | 68,405 |
| Insurance | 13,466 | 28,311 | 35,304 | 42,814 |
| Workers' compensation | 50,178 | 90,507 | 63,221 | 41,650 |
| Interest | 28,061 | 57,489 | 60,408 | 61,492 |
| Legal & Accounting | 9,870 | 24,920 | 20,540 | 21,230 |
| Occupancy | 70,757 | 120,222 | 111,388 | 108,309 |
| Postage and printing | 6,241 | 5,523 | 29,919 | 6,019 |
| Professional services | 30,080 | 24,990 | 55,785 | 70,321 |
| Supplies | 6,435 | 12,373 | 43,097 | 36,014 |
| Telephone | 13,181 | 29,483 | 41,892 | 35,025 |
| Transportation | 27,595 | 58,751 | 44,410 | 24,392 |
| Travel | 20,957 | 35,974 | 43,894 | 35,656 |
| Miscellaneous | 20,041 | 77,947 | 88,851 | 36,513 |
| TOTAL EXPENSES | 1,569,176 | 3,180,914 | 3,111,518 | 2,887,810 |
| Gain (Loss) on disposal of assets | 1,485 | 1,119 | (3,982) | (500) |
| Increase (decrease) in unrestricted net assets | 42,163 | (124,161) | (200,815) | 107,865 |
| TOTAL NET ASSETS, BEGINNING OF YEAR | 987,782 | 1,111,943 | 1,284,545 | \$ 1,176,680 |
| Prior period adjustment | | | 28,213 | |
| TOTAL NET ASSETS, END OF YEAR | \$ 1,029,945 | \$ 987,782 | \$ 1,111,943 | \$ 1,284,545 |

ADVENT GROUP MINISTRIES

Consolidated Balance Sheets

| | As of June30, | | As of December 31, | |
|---|----------------------|---------------------|---------------------------|---------------------|
| | 2004 | 2003 | 2002 | 2001 |
| Assets | (Unaudited) | | | |
| Cash and cash equivalents | \$ 327,562 | \$ 255,779 | \$ 575,879 | \$ 679,536 |
| Receivable from governments | 289,405 | 214,576 | 238,439 | 293,887 |
| Employee advances | (5,212) | 7,450 | 5,182 | 2,055 |
| Donated assets available for sale | 21,840 | - | 12,375 | - |
| Total current assets | 633,595 | 477,805 | 831,875 | 975,478 |
| Fixed Assets: | | | | |
| Property and equipment, net | 1,211,761 | 1,239,395 | 1,041,265 | 1,088,787 |
| Capital improvements, net | 30,658 | 41,044 | 49,400 | 66,930 |
| Construction in progress | | | 28,213 | |
| Total Fixed Assets | 1,242,419 | 1,280,439 | 1,118,878 | 1,155,717 |
| Other Assets: | | | | |
| Security deposit | 3,025 | 3,025 | 3,025 | 2,800 |
| Prepaid expenses | 7,923 | 5,262 | 7,923 | - |
| Program loan trust | 40,443 | 39,912 | 40,443 | 37,100 |
| Investments | 145,702 | 210,630 | 202,309 | 203,630 |
| Total Other Assets | 197,093 | 258,829 | 253,700 | 243,530 |
| Total Assets | \$ 2,073,107 | \$ 2,017,073 | \$ 2,204,453 | \$ 2,374,725 |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 2,054 | \$ 36,833 | \$ 25,330 | \$ - |
| Due to governments | 6,310 | 19,647 | 69,843 | 62,225 |
| Accrued payroll and taxes | 122,569 | 68,487 | 71,902 | 66,933 |
| Accrued vacation | 26,271 | 35,245 | 24,588 | 27,022 |
| Accrued interest | | 19,079 | 19,610 | 20,022 |
| Notes payable, current portion | 12,514 | 25,000 | 31,237 | 32,741 |
| Total current liabilities | 169,718 | 204,291 | 242,510 | 208,943 |
| Long-term liabilities | | | | |
| Notes payable (less current portion) | | - | - | 6,237 |
| Program loan payable (less current portion) | 825,000 | 825,000 | 850,000 | 875,000 |
| Total Long-term liabilities | 825,000 | 825,000 | 850,000 | 881,237 |
| Total Liabilities | 994,718 | 1,029,291 | 1,092,510 | 1,090,180 |
| Net Assets: | | | | |
| Total Net Assets | 1,078,389 * | 987,782 | 1,111,943 | 1,284,545 |
| Total Liabilities and Net Assets | \$ 2,073,107 | \$ 2,017,073 | \$ 2,204,453 | \$ 2,374,725 |

*difference from income statement is due to year end adjustments.

Financial Ratios:

| | Pro forma (a) | | | |
|----------------------------------|----------------------|-------------|-------------|-------------|
| | FYE Dec. 2003 | 2003 | 2002 | 2001 |
| Debt Service Coverage (x) | (0.39) | (0.35) | (0.76) | 2.60 |
| Debt/Unrestricted Net Assets (x) | 0.90 | 0.86 | 0.81 | 1.71 |
| Margin (%) | | (4.97) | (6.89) | 3.60 |
| Current Ratio (x) | | | | |

(a) Recalculates December 2003 audited results to include the impact of this proposed financing. Based on six month interim numbers proforma would be at a 2.03x.

Financial Discussion:

Advent has posted operating losses during two of the last three fiscal years. However, management recently implemented a strategic business plan to help offset these losses and interim operating results appear to have improved slightly.

Advent's operating losses are a result of two primary factors. First are a significant increased expenses for items such as worker's compensation insurance, health insurance and fuel prices. Second are a reductions in sources of funding from counties needing to place clients in out-of-home care. Also, the State of California has frozen rates paid for activities provided by Advent.

Advent recently developed a strategic business plan that has improved operating results. For the 1st six months of fiscal year 2004, Advent posted net income of \$43,000, a sharp turnaround from the previous two fiscal years. In addition, patient utilization has significantly improved (see page 5). The primary factors that have improved operating results are as follows:

- 1) Reducing payroll costs by a moderate decrease in its workforce.
- 2) Development of alternative sources of income which include a Drug Medi-Cal funded outpatient program, and application for three public grants, one was accepted for \$40,000, one declined, the last has yet to be determined.
- 3) Higher focus on marketing efforts, which appear to have increased occupancy for both group homes and foster homes.
- 4) Restructuring of the administration building lease which will result in an annual savings of \$18,000.

Advent's liquidity and debt to net assets ratio are adequate. Given Advent's operating losses, its debt service coverage ratio is poor, however using improving interim operating results indicates a proforma debt service coverage of 2.03x.

Advent has cash and cash equivalents of \$368,000, which represents an adequate 41 days of cash on hand. Advent's underlying financial strength is derived from its six properties, with an estimated current market value of \$4 million compared to long term debt of \$863,000, leading to approximately \$3.1 million in equity.

Advent is slightly leverage with a debt to unrestricted net assets of .90x. Advent's debt service coverage is not acceptable at .39x (HELP II underwriting guidelines require a minimum of 1.10x). However, if the improving interim operating results continues debt service coverage should improve significantly. Cal Mortgage has agreed to insure the loan leaving the Authority with minimal risk.

III. UTILIZATION STATISTICS:

Clients Served

| Type of Service | Six months Ended June | Fiscal Year Ended Dec. 31 | | |
|---------------------------------|-----------------------|---------------------------|------|---------------|
| | 2004 | 2003 | 2002 | 2001 |
| Group Home Residential | 78 | 128 | 129 | 106 |
| Foster Care | 34 | 42 | 48 | 60 |
| Outpatient * | 36 | * | * | * |
| Counseling Avg. # clients/mo | 113 | 94 | 93 | Not Available |
| Totals | 261 | 264 | 270 | 166 |

* Program started in 2004

Days of Care

| Types of Services | Six months Ended June | Fiscal Year Ended Dec. 31 | | |
|------------------------|-----------------------|---------------------------|--------|--------|
| | 2004 | 2003 | 2002 | 2001 |
| Group Home Residential | 5,619 | 10,952 | 11,144 | 11,286 |
| Foster Care | 4,454 | 7,034 | 7,283 | 8,081 |

IV. ORGANIZATION:

Background: Advent was founded over 35 years ago as a residential treatment program for adolescents with substance abuse disorders. It has grown to encompass a comprehensive family counseling center and a foster care program for children of all ages. Six treatment facilities located San Jose, Morgan Hill, San Martin and Gilroy provide in-patient services to addicted teens.

Licenses: Advent is licensed by the State Department of Social Services and is also certified by the State of California Department of Alcohol and Drug Programs.

Service Area and Competition: Advent's service area is Santa Clara County. Advent provides approximately 80% of residential treatment programs for adolescents in its service area. Other providers include Unity Care, Rebecca's Children's Center, Star House and Eastfield/Ming Quong all of which are more than 20 miles away and have less than 50 beds.

V. OUTSTANDING DEBT:

| Description | Original Amount | Amount Outstanding As of 12/31/03 | Estimated Amount Outstanding After Proposed Financing |
|-----------------------------------|-----------------|-----------------------------------|---|
| Existing: | | | |
| CHFFA STARTS 1992 Series A | \$1,025,000 | *\$825,000 | \$0 |
| Proposed: | | | |
| CHFFA HELP II Loan, 2004 | | N/A | 400,000 |
| Miller Charitable Remainder Trust | | | 396,000 |
| Private Funding | | | 67,752 |
| TOTAL DEBT | | \$825,000 | \$863,752 |

*Does not include current portion or the shortfall in the debt service reserve fund, total loan payoff is approximately \$843,000.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Advent has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) and To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

Advent has executed this certification and has provided the required information. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Advent Group Ministries, subject to a final Cal Mortgage commitment , securing other financing, and the standard HELP II loan provisions.